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Federal Budget Allocates 5 BLN Rubles to Get Rid of Grain Stocks

Report Categories:

Grain and Feed

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Report Highlights:

The Russian Government allocated 5,038 million rubles (\$168 million) for subsidies to distribute grain from the State Intervention Fund. The subsidies will cover costs for distributing/selling intervention grain, and a remuneration to a company, presumably the state United Grain Company (UGC), which will distribute/sell this grain. Experts consider that the UGC will be exporting most of this grain as humanitarian aid.

General Information:

The Russian Government issued a Resolution No.68 dated February 20, 2010 “On the Measures to Stimulate Realization¹ of Grain from the Federal Intervention Fund of Agricultural Products, Raw Material and Foodstuff”. This Resolution allocated 5,038 million rubles (\$168 million) for subsidizing the distribution of grain from the State Grain Intervention Fund. The distributor will be selected through a tender by the Ministry of Agriculture. The Ministry of Agriculture and the Federal Service for Finance-Budget Supervision will monitor the distribution and spending of these funds.

Text of the Resolution in Russian is on the web-site: <http://www.rg.ru/2010/02/24/subsidii-dok.html>

Background

On February 5, 2010, Russia suspended grain intervention purchases. From November 2, 2009 through February 4, 2010, the Russian Government purchased 1,775,250 metric tons (MT) of grain, including 1.7 million metric tons (MMT) of wheat, for 6.96 billion rubles (\$232 million). This grain added to the intervention stocks accumulated in MY 2008. From August 19, 2008 through May 21, 2009, the Russian Government purchased 9.6 MMT of grain, including 7.5 MMT of wheat, for 46.1 billion rubles (\$1.54 billion). According to the First Deputy Prime Minister Viktor Zubkov, by February 2010, Russia had 10 MMT of grain in the intervention fund, including 2.5 – 3.0 MMT of grain stored in poor conditions (“stored on the floor”). According to Zubkov, the grain condition grain deteriorates very fast, while the government expenses for storing it increases. In efforts to make room for the new crop, Russia must either ship this grain abroad as humanitarian aid or process it into alcohol². Deputy Prime Minister Zubkov promised the government subsidies for these purposes and mentioned that these subsidies will help the United Grain Company to cover expenses exporting up to 3.0 MMT of intervention grain. Previously the Ministry of Agriculture mentioned that the humanitarian aid grain might be shipped to Mongolia, Nicaragua, Cuba, and possibly Bangladesh and Argentina.

Comments

The Government Resolution #68 does not specify the agent or distribution requirements. The distribution options include the domestic feeding industry, alcohol production, and exports; however, many experts consider that exports will be the focus.

The 5-billion-ruble state subsidy is aimed at mitigating the effect of the previous years support. In 2008-2009 grain procurement interventions kept domestic grain prices well above world prices and stimulated overproduction. The effect of present subsidy on domestic wheat prices is not clear. This subsidy could temporarily solve storage problems. However, many experts believe that the temporarily subsidized exports might distort the domestic grain market and add uncertainty to the grain prices in summer 2010. This uncertainty will not stimulate farmers to invest in spring sowing and increase grain production in 2010.

Text of the Government Resolution No. 68 of February 20, 2010.

¹ The Russian word “realization” (realizatsiya) means all types of distribution of products, including selling it.

² From media reports on Zubkov’s presentation in Kursk, i.e. <http://www.bigness.ru/articles/2010-02-08/news/103964>

BEGIN TRANSLATION

Russian Federation Government Resolution
"On Measures to Stimulate the Distribution of Grain from the Federal Intervention Fund of Agricultural
Products, Raw Materials and Foodstuffs"
No. 68, dated February 20, 2010, Moscow

In accordance with Part 5 of Article 24 of the Federal Law "On the Federal Budget for 2010 and the Planned Period 2011 and 2012" the Government of the Russian Federation decrees the following:

1. To direct 5,038 million rubles from the 2010 budget's allocations for additional support of industries of Russian economy for subsidies aimed at the compensation of part of the expenses arising from distribution of grain from the federal Intervention Fund of Agricultural Products, Raw Materials and Foodstuffs by the decision of the Government of Russia Federation, and for the remuneration for the implementation of such distribution.
2. To approve the attached "Regulations for the 2010 Federal Budget Subsidies for the Compensation of Part of Expenses Arising from the Distribution of Grain from the Federal Intervention Fund of Agricultural Products, Raw Materials and Foodstuffs by the Decision of the Government of the Russian Federation, and for the Remuneration for the Implementation of such Distribution".
3. The Russian Ministry of Agriculture jointly with the Ministry of Finance, Ministry of Economic Development and the Federal Tariff Service to form an interagency commission to confirm the validity of sales prices of grain to be distributed from the Federal Intervention Fund of Agricultural Products, Raw Materials and Foodstuffs.

Chairman of the Government
of the Russian Federation
V. Putin

Regulations for the 2010 Federal Budget Subsidies for the Compensation of Part of Expenses Arising
from the Distribution of Grain from the Federal Intervention Fund of Agricultural Products, Raw
Materials and Foodstuffs by the Decision of the Government

1. These Rules shall govern the provision of the 2010 federal budget subsidies to compensate part of the costs and expenses arising from the distribution of grain from the Federal Intervention Fund of Agricultural Products, Raw Materials and Foodstuffs (hereinafter - the Intervention Fund) by the decision of the Russian Government, and to remunerate for the implementation of such distribution (hereinafter – the subsidies).
2. In distribution of grain from the Intervention Fund on the decision of the Russian Government (hereinafter – the distribution of grain from the intervention fund) the subsidy is given to the state agent selected by the Ministry of Agriculture on a competitive basis and in accordance with the established order of the Russian Federation legislation for the state procurement and commodity interventions (hereinafter - agent).

3. The subsidies shall be granted in accordance with the agreement reached between the agent and the Ministry of Agriculture of the Russian Federation and agreed upon with the Ministry of Finance of the Russian Federation.

In distributing grain from the Intervention Fund the validity of the sales price is confirmed by the inter-agency commission formed by the Russian Ministry of Agriculture jointly with the Ministry of Finance, Ministry of Economic Development and the Federal Tariff Service.

4. The subsidy is defined as the difference between the purchase price of grain in the intervention fund, taking into account the costs of taxes, payment of the costs of distribution of grain from the intervention fund, including shipping, transportation (including sea), freight forwarding services, certification (including the services of surveyors) , fumigation, handling (including port services), insurance, customs fees, compensation for losses during transportation and handling of grain, as well as the cost of repayment of loans obtained in the Russian credit organizations to pay for the cost of distribution of grain from the intervention fund, and adjusted to the common basis of delivery by the selling price of grain.

5. The subsidy also includes the payment of remuneration for the distribution of grain from the intervention fund, which is determined by the amount of:

1 per cent of sales value of grain from the intervention fund - if the selling price of grain from the intervention fund is not above the purchase price, taking into account the costs referred to in paragraph 4 of this Regulation;

1.5 per cent of sales value of grain from the intervention fund - if the sales price of grain from the intervention fund is higher than purchase price, taking into account the costs referred to in paragraph 4 of this Regulation.

6. The Ministry of Agriculture of the Russian Federation and the Federal Service for Financially-Budget Supervision shall monitor the expenses associated with the provision of subsidies.

END TRANSLATION

Relevant Reports

RS1006 _ Grain and Feed _ Russian Official Data on Grain Crop 2009 _ Moscow _ Russian Federation _ 1-28-2010

RS9073 _ Grain and Feed _ Grain and Feed December Update _ Moscow _ Russian Federation _ 11-30-2009